

Message Text

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SUBJECT:MARITIME TRANSPORT COMMITTEE: STUDY ON EFFECTS OF
RESTRICTING FLAGS OF CONVENIENCE

REF: A) DAF/MTC/77.36, B) DAF/MTC/77.35

1. IN ACCORDANCE WITH PARA 7 OF REF A DOCUMENT, COMMENTS
IN PARA 2 BELOW ARE SUBMITTED FOR CONSIDERATION BY JAPANESE
DELEGATION WHICH PREPARED STUDY ON EFFECTS OF RESTRICTING
FLAG OF CONVENIENCE FLEETS. MISSION IS REQUESTED TO PRO-
VIDE THESE COMMENTS TO SECRETARIAT FOR TRANSMITTAL TO
JAPANESE DELEGATION. IN DELIVERING U.S. COMMENTS, MISSION
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SHOULD EMPHASIZE THAT OUR COMMENTS ARE FOR USE OF AUTHORS
OF REPORT AND SHOULD BE HANDLED AS CONFIDENTIAL; WE WOULD
NOT WANT THEM TO BE ATTRIBUTED TO U.S. IN ANY PUBLIC DOCU-
MENT.

2. U.S. COMMENTS ARE AS FOLLOWS:

A. THE CONCLUSIONS OF THE JAPANESE SUBMISSION (PARAGRAPHS
64-76) ARE LARGELY DEFENSIBLE AND REALISTIC. THE EFFECTS
OF ANY DRACONIAN RESTRICTIONS ON CONVENIENCE FLAG REGIS-

TRIES--IN TERMS OF RESULTANT SHIFTS IN VESSELS' FLAG REGISTRY--BEAR GREATER EMPHASIS. IN PARTICULAR, THE LOW PROBABILITY OF SUCH RESTRICTIONS' RESULTING IN SIGNIFICANT BENEFITS TO DEVELOPING NATIONS' FLEETS IS NOTABLE. PARAGRAPHS 66 (FOR LINER CONTAINERSHIPS, LARGE BULK AND TANK VESSELS, AND OTHER CAPITAL-INTENSIVE AND/OR SPECIALIZED VESSELS) AND 67 (FOR TRAMPS AND SMALL-MEDIUM SIZED TANKERS AND BULKERS) NOTE THAT EITHER PREEMINANTLY HIGH CAPITAL COST FACTORS OR THE PRESENCE OF REAL OR POTENTIAL EASTERN BLOC COMPETITION WILL SEVERELY LIMIT ANY APPRECIABLE SHIFTING TO FLAGS OF DEVELOPING NATIONS SHOULD CONVENIENCE FLAGS BE LIMITED. FURTHER, AS ATTESTED TO IN PARAGRAPH 69, ONLY THE OIL PRODUCERS AMONG THE DEVELOPING NATIONS WOULD BE IN AN IMMEDIATE AND REALISTIC POSITION TO EXPLOIT, SHOULD THEY SO DESIRE, ANY SHIPPING VACUUM CREATED BY THE ELIMINATION OF OPEN REGISTRY SCHEMES. FOR THE LESS FORTUNATE MAJORITY OF THE DEVELOPING WORLD WHO DO NOT POSSESS OIL EXPORT CAPABILITY, THE APPROPRIATION OF ANY MARITIME BENEFITS OF RESTRICTED OPEN REGISTRATION WOULD DEPEND ON THE DEVELOPED NATIONS' EXTENSION OF "ASSISTANCE AND COOPERATION TO THE DEVELOPING COUNTRIES IN THE FORM OF CAPITAL LOANS, JOINT VENTURES, TECHNICAL COOPERATION, ETC.." THIS IS DUE TO LIMITED OFFICIAL USE
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"THE FACT THAT DEVELOPING COUNTRIES ARE NOT FULLY CAPABLE OF OPERATING VESSELS AND LACK THE CAPABILITY TO RAISE CAPITAL." THUS ANY--HOWEVER MARGINAL--BENEFIT ACCRUING TO THE DEVELOPING WORLD'S FLEETS WOULD BE FAR FROM AUTOMATIC UPON ANY IMPOSITION OF INTERNATIONAL RESTRICTIONS UPON OPEN REGISTRY FLEETS. INDEED, DOMESTIC POLITICAL AND FINANCIAL REALITIES IN MOST DEVELOPED NATIONS DO NOT SUGGEST THAT SUFFICIENT AID WILL BE FORTHCOMING TO CREATE A DEVELOPING WORLD MARITIME CAPABILITY WHICH WOULD FILL EVEN A FRACTION OF THE VACUUM THAT THE DISAPPEARANCE OF CONVENIENCE FLAGS WOULD CREATE. ONE IS THEREFORE LEFT WITH THE IMPRESSION THAT DEFICIENCIES WHICH MAY EXIST IN THE FLEET CAPACITIES OF THE DEVELOPING NATIONS ARE LARGELY UNRELATED TO THE EXISTENCE OF THE OPEN REGISTRY SYSTEM ITSELF AND ARE INSTEAD PART OF THE MORE GENERAL PHENOMENON OF INSUFFICIENT CAPITAL INVESTMENT IN THE DEVELOPING WORLD.

B. THIS LAST FACT POINTS OUT WHAT IS PERHAPS THE CENTRAL MISCONCEPTION UNDERLYING STUDIES SUCH AS THE UNCTAD REPORT ON CONVENIENCE FLAGS (TD/B/C.4/168), AND THAT IS THAT THE EXISTENCE OF SUCH FLEETS IS SOMEHOW THE PROXIMATE OR MAJOR CONTRIBUTING CAUSE OF TODAY'S LIMITED STATE OF DEVELOPMENT OF THE DEVELOPING NATIONS' MERCHANT FLEETS. BUT THE JAPANESE SUBMISSION CORRECTLY NOTES THAT ANY SIGNIFICANT IMPROVEMENT IN THIS STATE OF DEVEL-

OPMENT CANNOT BE EXPECTED TO FOLLOW THE SIMPLE IMPOSITION OF INTERNATIONAL RESTRICTIONS ON OPEN REGISTRY FLEETS.

C. AS INDICATED IN PARAGRAPH 70, LACK OF SUFFICIENT CAPITAL, TECHNOLOGY, AND EXPERTISE IS NOT THE ONLY FACTOR PREVENTING THE DEVELOPING NATIONS FROM FILLING THE GAP THAT WOULD BE CREATED BY INTERNATIONAL MEASURES TO RESTRICT CONVENIENCE FLAGS. ANOTHER IS THE PRESENCE OF CONSIDERABLE ACTUAL AND PROJECTED TONNAGE OF EASTERN LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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BLOC FLAGS, STANDING READY TO GARNER ANY MARKET SHARE ADVANTAGE POSSIBLE SHOULD THE INCREASED COSTS OF RE-FLAGGING (NECESSITATED BY RESTRICTIONS ON CONVENIENCE FLAGS) UNDER COUNTRIES OF BENEFICIAL OWNERSHIP CAUSE RATES TO INCREASE. THE EASTERN BLOC FLEETS IN CROSS TRADES HAVE ALREADY SHOWN THEMSELVES DESIROUS AND CAPABLE OF PRACTICING PREDATORY RATE COMPETITION AIMED AT THE MARKET SHARES OF CARRIERS OF THE TRADING NATIONS INVOLVED IN A PARTICULAR ROUTE. AS PARAGRAPH 70 POINTS OUT, REFLAGGING UNDER THE DEVELOPED NATIONS OF BENEFICIAL OWNERSHIP WILL FURTHER WIDEN THE "COST DIFFERENTIAL WITH EASTERN BLOC SHIPS" WITH THE RESULT BEING A FURTHER INCREASE IN SUCH THIRD-FLAG FLEETS' SHARES.

D. IT MIGHT BE ADDED THAT THE EASTERN BLOC NATIONS, UNLIKE THE DEVELOPING NATIONS, DO NOT LACK THE SUBSTANTIAL CAPITAL AND TECHNICAL EXPERTISE NEEDED TO FILL THE VESSEL SUPPLY GAP THAT WOULD BE CREATED BY RESTRICTIONS ON OPEN REGISTRY FLAGS. NOR COULD BLOC NATION MERCHANT FLEETS BE EXPECTED TO OPERATE UNDER NORMAL COMMERCIAL CONSTRAINTS AND COMPETITIVE PRACTICES, SINCE THEIR RATE TACTICS CAN BE EFFECTIVELY UNDERWRITTEN BY THE ENTIRE STATE APPARATUS OF WHICH THEY ARE PART.

E. THUS THE POINT MADE IN THE LAST (NUMBER 76) PARAGRAPH OF THE JAPANESE REPORT IS WELL TAKEN AND DESERVES GREATER EMPHASIS. THIS POINT IS THAT, FACED WITH THE PROSPECT OF AGGRESSIVE, CUT-THROAT COMPETITION FROM CROSS-TRADING EASTERN BLOC CARRIERS, MANY DEVELOPED TRADING NATIONS WILL BE FORCED TO ADOPT MAJOR MARITIME PROTECTIONIST MEASURES AS A RESULT OF THE AFOREMENTIONED COST DIFFERENTIAL, THUS "VEERING AWAY FROM THE PRINCIPLE OF FREEDOM OF SHIPPING." IN SUCH AN ATMOSPHERE, THE LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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FLEETS OF DEVELOPING NATIONS COULD HARDLY BE EXPECTED

TO FLOURISH AS CROSS TRADERS.

F. IN THE SAME PARAGRAPH, IT IS STATED THAT "...CERTAIN COUNTRIES WHICH ENTRUST A CONSIDERABLE PORTION OF THE TRANSPORT OF THEIR CARGO TO FLAG OF CONVENIENCE SHIPS AS WELL AS THOSE COUNTRIES WHICH HAVE A CONSIDERABLE PORTION OF THEIR OWN SHIPS REGISTERED UNDER FLAGS OF CONVENIENCE, MIGHT HAVE TO ADOPT NEW PARTICULAR POLICIES FOR REASONS OF ECONOMIC SECURITY AND NATIONAL DEFENSE"

WHILE "...THOSE DEVELOPING OR RESOURCE-EXPORTING COUNTRIES WHICH DO NOT POSSESS THEIR OWN POWERFUL MERCANTILE MARINE WOULD ADOPT MORE VIGOROUS MEASURES TO EXPAND THEIR SHIPPING SHARE" AS A RESULT OF THE FORCED ELIMINATION OF OPEN REGISTRY MERCHANT FLEETS. IN SHORT, SUCH AN ENDEAVOR COULD BE EXPECTED TO GREATLY ENCOURAGE THE PROLIFERATION OF SEVERELY PROTECTIONIST MEASURES IN MARITIME AS WELL AS OTHER SEGMENTS OF INTERNATIONAL COMMERCE, TO THE DETRIMENT OF ALL NATIONS WHICH BENEFIT FROM TRADE. AT THE SAME TIME, THOSE DEVELOPING NATIONS WITH MARITIME ASPIRATIONS WOULD STILL BE FACED WITH INSUFFICIENT SHIPPING CAPITAL AND TECHNOLOGY TO EXPLOIT EVEN THOSE FEW NEWLY-CREATED MARKET NICHES THAT EASTERN BLOC AND OTHER CROSS TRADERS WOULD BE UNWILLING OR UNABLE TO FILL.

G. WHEN ADDED TO THE REGRESSIVE INTERNATIONAL INCOME EFFECTS AND GREATLY REDUCED COST AND RATE EFFICIENCY IN THE SHIPPING SECTOR THAT INTERNATIONAL RESTRICTIONS ON OPEN REGISTRY FLEETS WOULD ENTAIL (SEE DAF/MTC/77,35, THE DRAFT GROUP B POSITION PAPER ON THE UNCTAD "GENUINE LINK" STUDY TD/B/C.4/168) THE SPECTER OF A WAVE OF ILL-CONSIDERED AND ULTIMATELY SELF-DEFEATING PROTECTIONIST MEASURES WORLDWIDE IS A COMPELLING ARGUMENT AGAINST THE ADAPTION OF PUNITIVE INTERNATIONAL RESTRICTIONS AGAINST CONVENIENCE FLAGS.

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3. LANGUAGE IN PARA 4 BELOW IS A SUGGESTED INSERTION FOLLOWING THE FOURTH SENTENCE ("FOR EXAMPLE, THE REPORT... FLEETS.") OF THE FINAL (NUMBER 52) PARAGRAPH OF REF B, THE DRAFT GROUP B POSITION PAPER ON THE UNCTAD "GENUINE LINK" REPORT ON FLAGS OF CONVENIENCE. WE BELIEVE THAT ADDITION OF COMMENTS ALONG THESE LINES WOULD IMPROVE THE POLITICAL APPEAL OF THE FINAL GROUP B PAPER.

4. SUCH CONSIDERATION LEADS TO THE CONCLUSION THAT A POLICY OF SEVERELY TIGHTENED VESSEL-FLAG LINKS WOULD NOT BENEFIT AN APPRECIABLE NUMBER OF POORER DEVELOPING NATIONS. INSTEAD, IT WOULD SEEM REASONABLE TO EXPECT THAT ANY BENEFITS WOULD ACCRUE ONLY TO THOSE WEALTHIER DEVELOPING NATIONS WHICH COULD REALISTICALLY HOPE TO

DEVELOP AND MAINTAIN VIABLE MERCHANT FLEETS DUE TO THEIR:

1) FORTUITOUS COASTAL AND PORT GEOGRAPHY; 2) ACCESS TO THE NECESSARY CAPITAL AND TECHNICAL KNOWHOW; AND, MORE IMPORTANTLY, POSSESSION OF HIGHLY PRICE-INELASTIC EXPORT COMMODITIES (SUCH AS OIL AND CRITICAL MINERALS), ALLOWING ANY INCREASED TRANSPORT COSTS TO BE SHIFTED TO IMPORTERS OF THESE COMMODITIES. SINCE, HOWEVER, THE GREAT MAJORITY OF DEVELOPING NATIONS LACK ONE OR MORE OF THESE CONDITIONS, IT IS UNLIKELY THAT THEY COULD

APPROPRIATE APPRECIABLE BENEFITS FROM A REDUCED CONVENIENCE FLAG PRESENCE. INSTEAD, THE POOREST NATIONS COULD EXPECT TO BE HARMED IN AT LEAST TWO WAYS: FIRST, THEY WOULD BE FORCED TO PAY HIGHER DELIVERED PRICES FOR MANY CRUCIAL IMPORTS. SECOND, THEY COULD EXPECT TO RECEIVE DIMINISHED NET REVENUES FROM THEIR EXPORT SALES TO THE (OFTEN GREAT) EXTENT TO WHICH THEIR EXPORT GOODS ARE PRICE ELASTIC; THIS ELASTICITY WOULD LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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COMPEL THEM, AS SELLERS, TO ABSORB SOME OR ALL OF ANY INCREASED TRANSPORT COST BURDEN. THUS A REDUCTION OF THE ROLE OF LOW-COST CONVENIENCE FLAG SHIPPING (THROUGH AN INTERNATIONAL REGIME OF FAR STRICTER VESSEL-FLAG INKS) COULD WELL HAVE SUBSTANTIALLY REGRESSIVE INTERNATIONAL INCOME EFFECTS WITHIN THE VARIOUS STRATA OF THE DEVELOPING WORLD. VANCE

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